



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
CIVIL WORKS
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WASHINGTON DC 20310-0108

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MEMORANDUM FOR DEPUTY COMMANDING GENERAL FOR CIVIL AND
EMERGENCY OPERATIONS

SUBJECT: Life Cycle Cost Management on Civil Works Projects

In recent communications with the Corps of Engineers, my office has emphasized the need for the Corps to improve calculation, explanation, reporting and display of cost estimates for Civil Works construction projects. Specifically, in a 4 May 2012 policy guidance memorandum for formulation of the Army's Fiscal Year (FY) 2014 budget recommendation, I directed that a table be provided that would highlight cost estimates reported to Congress in FY 2012 and FY 2013 as well as current cost estimates for all projects requesting construction funding in FY 2014. This table (see attachment) was also to include a concise explanation for any project whose costs exceeded the annual rate of inflation from what was last reported to Congress.

The explanations for the cost increases provided in the attached table consistently attribute inflation and/or cost of materials as the basis for the cost increases. Similar explanations for cost increases were reported to Congress last year. In many cases, the reported cost increases appear disproportional to the explanations. Inflation is defined in EM 1110-2-1304, dated 31 March 2012, as the Civil Works composite cost Index (weighted average) yearly percentage change. That percentage change is 1.7% for FY 2013 and 1.6% for FY 2014. In the provided attachment, many of the cost increases are significantly higher than the rate of inflation and it is unclear how the increased cost of materials have exceeded the contingencies included in the original cost estimate.

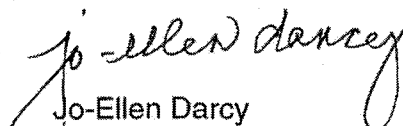
Baseline cost estimates are established in the original Chief's reports for Civil Works projects. I am concerned both with the development of those estimates and with the growing evidence that projects, once authorized, do not appear to be managed for completion within those approved cost estimates, let alone within their maximum total project cost limits (e.g. Section 902 of WRDA 1986 limit) or other statutory limits. Also, there does not appear to be a direct correlation between the projects displaying increased cost estimates and the projects that have been identified on the August 2012 list of known projects that may require increased funding beyond their 902 limit. Absent controls to closely track and minimize cost increases on a year-to-year basis, more projects will be in jeopardy of needing statutory raises to their 902 limits.

Subsequent to my memo, the Government Accountability Office, in a letter dated 17 May 2012, provided notice of their plan to review cost overruns on the Corps' flood



risk management projects. An improved, transparent, systematic approach to monitor and manage project cost increases is clearly needed, given continued fiscal constraints and the potential adverse impacts on the credibility of the Corps' cost estimating processes. Managing projects to their estimated total costs, which already include appropriate contingencies, plus inflation, rather than managing projects to their 902 cost limits, will reduce the frequency of post-authorization changes requiring Congressional action to raise the 902 limits.

In response to these concerns, the Corps needs to brief me no later than 22 March 2013 on a plan to address the issue of management of construction costs on projects to the original cost estimate. Please also provide 1) a single senior Corps official responsible for management of project costs; 2) an explanation of cost increases since FY 2012 on construction projects identified in the Army's FY 2014 budget recommendations, including a breakdown of increases attributed to inflation in excess of the nation's construction inflation rate for the same period or to design changes; 3) the current process under which costs are managed by the districts from pre-authorization baseline cost establishment through construction completion, including management of contingency amounts established for those projects; 4) the Corps' proposed process to manage and control cost increases in the future, with emphasis on how the proposed process differs from the current process and clarity with regard to the notification and approval process for cost increases; and 5) a current list of projects with known costs approaching or exceeding the 902 limit, including identification of post-authorization change reports that are under development and their scheduled completion dates. I am most interested in your thoughts on improvements that can be made by the Corps in actively managing cost growth to significantly reduce the number of instances where post-authorization changes are required to allow completion of ongoing construction projects.


Jo-Ellen Darcy
Assistant Secretary of the Army
(Civil Works)

Attachment